Historic, archived document

Do not assume content reflects current scientific knowledge, policies, or practices.

What young farm families should know about CREDIT

FARMERS' BULLETIN NO. 2135

U.S. Department of Agriculture

CONTENTS

Washington, D.C.

Issued June 1959
Slightly revised September 1971

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price 10 cents

What young farm families should know about CREDIT

By Lawrence A. Jones, Farm Production Economics Division, Economic Research Service

Credit is a means of achieving an objective. Credit enables a person to buy or invest when he does not have enough cash for the purpose. Intelligent spending and investing is basic to intelligent use of credit.

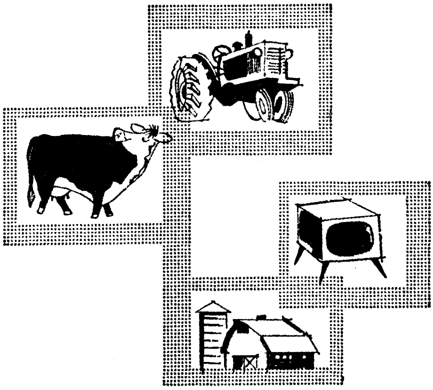
Before using credit it is wise to understand your current situation. Appraise your resources—your property, money, energy, management ability, and so on. Consider your present wants, objectives and family situation. Develop your future plans and goals. Only then can credit play a useful part in helping to build a good farm business and in improving family living conditions.

BENEFITS AND RISKS OF CREDIT

Use of credit provides many benefits. It can speed ownership of a farm, make a farm more productive and efficient, and help increase income. It can provide conveniences for the family before cash is available to pay for them. It can be a help in emergencies.

The main risk in using credit is that future income may not be large enough to permit repayment of the debt. Payments on loans, if too large, may take money needed to operate the farm, maintain the property, and give the family a satisfactory level of living. Unwise use of credit can cause worry and hardship. In extreme cases, it can result in foreclosure.

REASONS FOR OBTAINING CREDIT



Convenience

Credit is used as a convenience when a farmer buys such items as feed or tractor fuel on an open account or when he gets service from garage operators. This form of credit saves the bother of paying cash for all daily or weekly purchases and services. Usually these "bills" are paid each month. If they are not paid regularly, they accumulate and eventually the borrower is in financial difficulty.

Emergencies

For emergencies credit is often the only means of getting money quickly. But credit should not be relied upon to meet all emergencies. A better source of money in emergencies is a reserve fund—bank deposits or United States savings bonds—or insurance.

Refinancing

Farmers can sometimes refinance their existing debts to lower interest rates, to obtain longer and more favorable repayment terms, or to consolidate many debts. Occasionally, refinancing is necessary to prevent foreclosure by a lender or creditor who is demanding immediate payment. But care in choosing the most suitable lender and loan terms at the time the original loan or credit is obtained will usually make refinancing unnecessary.

Consumption

Consumer credit is used to buy household goods and appliances, and for other personal and family expenses.

The wise and safe use of consumer credit depends mainly on whether the family has a prospective income large enough to meet the payments and still provide a reasonable margin for living expenses and emergencies.

Beginning farmers must work out with their families the proper balance between spending for the home and family and spending to improve the farm business. Decide how much emphasis to put on current living needs and wants, and how much income and credit to invest to increase future income or security. When current income is low, be especially cautious in planning the use of consumer credit.

Production

Borrowing for productive purposes is usually more worth while than borrowing for other purposes. Production credit includes borrowing to buy a farm, stock, and equipment or to pay for such operating expenses as labor, feed, fertilizer, and gasoline. The desirability of using credit for production purposes is largely a matter of deciding whether the expenditure or in-

vestment will provide an income more than sufficient to pay the interest and repay the debt without undue risk.

If you are just starting to farm, you will probably want to use your own limited resources, together with what you can borrow, to get control of a farm large enough to provide your income goal. In many sections of the United States, the investment needed for an efficient operating unit ranges up to $100,000 or even more; smaller farms may not permit the volume of business that is usually necessary for success.

DECIDING WHEN TO BORROW

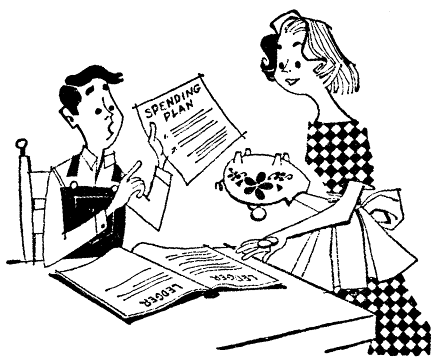
If you have few assets and funds of your own and little financial backing from your family, it would be risky—if it were possible—to borrow the amount needed to buy and equip a farm of adequate size. It might be better to rent an adequate-size farm and invest your available money in livestock and equipment.

Good farm-management practices will dictate the things for which you should borrow in operating your farm. If your county agent or farm advisor gives a low priority to certain farm practices or farm investments, it is not wise to borrow for such purposes.

Figure carefully the prospective returns from your different farm enterprises. Figure how varying investments in each of them would affect their returns. Borrowed money may give the greatest returns if it is invested in fertilizer and in other soil improvements that will increase crop yields. More and better-producing livestock might permit more efficient use of labor and feed supplies. Additional land might enable you to use machinery more fully.

Most beginning farmers need to buy some machinery and equipment and to improve farm buildings. But take care not to invest more for these purposes than the returns will justify.

Plan not only what you should borrow for the current year, but what



you should borrow for several years ahead. Include in your program any expected improvements to land and buildings, purchases or replacements of machinery, and purchases of additional livestock. Don't overlook the automobile, freezer, or television set you may buy. When you talk with your lender, be specific in stating your long-range needs for funds and your plans for repayment. Otherwise you may be returning later to ask for an additional loan or for more time on your present one.

If you find it necessary to borrow to cover farm losses or to refinance debts with creditors who are pushing you, it is time to appraise your whole situation. Does this difficulty result from drought, livestock losses, a sudden drop in prices, or some other condition that you hope is only temporary? Or do you have a more permanent problem—too poor a farm, too heavy a debt, too little farming ability? If you find that there is little prospect of correcting your

situation and of making a living from farming, recognize your situation early. Perhaps you should farm less intensively and get a part-time job in town. More credit is not the solution for every problem.

DECIDING HOW MUCH TO BORROW

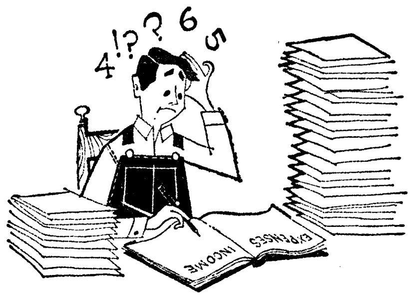
Three factors determine the amount of credit you should ask for—the amount you need, the amount you will be able to repay, and the amount the creditor or lender will let you have.

Your credit requirement

The amount of credit you need depends on how much cash you have and on such things as the price of the farm you plan to buy, the cost of a new tractor or automobile, the cost of operating an efficient farm business, and your family expenses.

The amount you can repay

Use a budget in deciding how much credit you can repay. Consider the size of farm and farm business that you plan to finance with borrowed funds. Estimate as closely as possible what your future production will be. On the basis of probable prices, what will be your gross income? From this income, determine what you will have to pay for operating expenses and taxes. What will you be required to pay on other debts? Don't overlook your family living expenses—those for food, clothing, utilities, and doctor and dentist bills. Also, consider the date the debt payment is due in relation to your expected cash on hand.



If you are financing 1 year's operations, you won't need to look very far ahead. But if you are investing in a farm, a better house, expensive equipment, or other capital improvements, repayment of your loan may depend on your income for many years to come.

Recognize that you cannot predict the prices you will receive for your crops or livestock products. Allow for the possibility that production may be lowered by drought, frosts, floods, insects, and disease. Your production costs may be uncertain also.

Because of these risks, do not borrow the entire amount that your budget shows you can use profitably. For different amounts of credit, weigh the estimated amount of profit against the consequences of a year or two of low income or some unexpected emergency. Borrow a little less than you believe you can repay. Leave a margin of safety to make it easier to repay—and easier to borrow more money if needed—in case your income should drop.

Keep in mind that as a borrower you agree to make payments that come due regardless of your income situation.

The amount the lender will lend

The amount you should borrow may be determined by the amount the lender is willing to lend you. Lenders

who specialize in farm loans have had much practical experience. They can often give reliable advice about how much can be borrowed safely and used profitably.

If you mortgage your farm, you may be able to borrow from half to three-fourths its market value. The amount you can borrow for buying livestock and equipment will depend partly on your equity in all your personal property—that is, on the value of your personal property less any debts already owed against it. The amount you can borrow will also depend on such things as your income, your ability as a manager, and your reputation in the community.

KINDS OF LOANS AVAILABLE

Several kinds of loans are available to farmers. Choose a lender that can offer terms most suitable to your needs.

The lender will make the final decision on the amount and terms of the loan, but you should know the terms that are available so you can discuss them intelligently.

The kinds of loans discussed here may be used for both production and consumption purposes.

Operating loans

Operating, or "short term," loans are made for annual expenditures such as seed, fertilizer, hired labor, and gasoline. Farmers may also get credit for living expenses. Operating loans are usually made for 1 year or less but they may be renewed under certain conditions. They may or may not be secured by a chattel mortgage—that is, a mortgage on crops, livestock, or equipment (any

of the farmer's property except real estate).

Working capital loans

Working capital, or "intermediate term," loans are made for such expenditures as equipment, breeding stock, improvements, major home appliances, and furnishings. Amounts borrowed under this type of loan are often larger than operating loans, and the capital acquired will last several years. For these reasons, up to 7 years may be given for repayment. Usually, a chattel mortgage is required as security.

Farm-mortgage loans

If you want to buy a farm, or buy more land, or build a new barn, you will need a large loan and a long time in which to repay it. Or you may want to consolidate your short-term loans so you can make payments over a longer period. If you apply for a long-term loan of this kind, you will be asked to give a mortgage on your farm as security. Farm-mortgage loans may have repayment terms as long as 30 years or more. Usually they are amortized—that is, paid off in regular annual or semiannual payments.

WHERE TO BORROW

Banks and production credit associations are the main sources of the shorter term operating and working-capital loans. The Farmers Home Administration makes such loans in some instances. Merchants, dealers, finance companies, landlords, cotton-gin operators, and canning companies are other sources.

Life insurance companies, Federal land banks, local commercial banks, the Farmers Home Administration, and individuals are the most common sources of longer term farm-mortgage loans.

Check in your locality for a credit union or other source of credit that may be good.

Life insurance companies

Life insurance companies are an important source of farm-mortgage loans in many parts of the country. Their loans, which may amount to half or more of the value of the farm, usually have terms of 20–25 years. The loans are usually amortized and extra payments are often permitted. If you make extra payments on a loan of this kind, the lender may let you skip some later installments if you run into drought, low prices, or other financial difficulty. Interest rates vary slightly among areas and different classes of borrowers, but they average close to the rates of other major mortgage lenders.

Federal land banks

Federal land bank loans are made through local Federal land bank associations, cooperatives that serve all parts of the United States. The amount loaned depends on the farmer's experience and financial capabilities and on the quality of the farm. Loans are usually amortized with payments on an annual or semiannual basis. All are first mortgage farm real estate loans, with terms ranging from 5 to 40 years. Borrowers must buy stock in their local land bank association equal to 5 percent of the loan. Prepayment of the principal is permitted at any time without penalty. Loan rates are relatively low and vary according to the cost to land banks for funds from the investment market.

Commercial banks

Commercial banks provide almost a third of all the shorter term credit used by farmers. They are convenient sources of loans and they provide checking accounts and other services that farmers use. They make automobile and other consumer loans as well as production loans for the farm business. Interest rates and security requirements depend on the size and purpose of the loan and the borrower's net worth and income situation.

Your local banker is a good person to know—not only as a source of credit but also for the financial advice he can give you.

Commercial banks make farm-mortgage loans for shorter terms than insurance companies and land banks. Most loans are made for terms shorter than 10 years. Usually they can be renewed. Your bank may be able to arrange a longer term loan for you with a life insurance company. Long-term loans may also be available under the insured loan program of the Farmers Home Administration. Compared with the interest rates charged by Federal land banks and life insurance companies, the interest rates charged by banks are usually higher. The amounts loaned are usually smaller.

Farmers Home Administration

The Farmers Home Administration, a rural credit service of the U.S. Department of Agriculture, makes loans to farmers who cannot get adequate financing from other credit sources on reasonable terms.

FHA makes long-term loans to help farmers buy and develop farms and to help them construct and repair farmhouses and other farm buildings. Loans may be used to improve land and water supply, produce trees and other forestry products, and to produce fish under controlled conditions. Interest rates on these loans are low, and the terms range up to 40 years.

FHA loans are also made for operating and improving the farm business. These short-term loans may be used to buy livestock, equipment, and material necessary to operate a farm. Repayment terms range up to 7 years.

Emergency loans are made by FHA to repair homes damaged or destroyed or to restore farming operations disrupted by drought, flood, or other natural disaster.

The agency also makes loans, accompanied by technical assistance, to develop and operate nonfarm enterprises which supplement the family's income, including recreation facilities open to the public.

Under a separate program, FHA makes rural housing loans to provide adequate, but modest homes to farmers and other rural residents who live in towns with populations under 10,000. Low-income families who cannot meet the full amortized payment on a rural housing loan may qualify for an interest credit to offset a portion of the interest on the loan.

Applicants for loans must have sufficient experience and ability to promise success in farming, and the farm must be no larger than family-size. FHA helps young farmers get started in farming and other farmers improve their operations or ride out a temporary emergency. FHA loans are accompained by technical assistance in farm, home, and money management.

Production credit associations

Production credit associations are the units of the Farm Credit System which make short and intermediate term credit available to farmers. With offices serving all agricultural counties, PCAs make loans for almost every farm, farm home and farm family need. Loans may be made for up to 7 years with terms adjusted to the needs of the individual. When taking out a loan, a borrower, as a member of his association, buys stock in the PCA equal to 5 percent of the loan. Interest rates are figured on the daily amount of the loan outstanding. Many PCA loans are made on a budget plan: the money is ad-

427-941°—71——2

vanced to the farmer as needed, and repaid as sales are made.

Individuals

Individuals provide some short- and intermediate-term credit but they are most important in extending long-term credit to farmers. The cost, terms, repayment plans, and desirability of such loans vary widely. Often a seller takes a mortgage loan as part of the price of his farm. Loans of this kind are secured by a first mortgage or by a second mortgage back of a first-mortgage loan from another lender. When the downpayment is small the farm may be purchased on a contract. After payments to the seller reach an agreed amount, a deed is given to the buyer and the contract is replaced by a mortgage.

Borrowing from an individual has both advantages and disadvantages. You may be able to get a larger and more favorable loan from a friend or relative than from regular lenders. If an emergency occurs, an individual may be more lenient with you than an institution. But if the lender should die, his estate might demand payment when you are least able to pay. Also, with loans made by individuals on a strictly business basis, terms may be shorter and interest rates higher than for other lenders.

Merchants and dealers

Merchant and dealer credit usually may be obtained easily and quickly when you buy from grocers, department stores, feed and fertilizer dealers, livestock dealers, and machinery dealers. A charge account or open-account credit will save you the bother of paying more than once a month for weekly deliveries of, say, feed.

One type of credit that has expanded in recent years, particularly in urban areas, is the revolving credit card account. By the use of a credit card a customer can charge any number of purchases as long as he pays a specified amount each month. Frequently, one card can be used to obtain credit from several sources such as from automobile service stations, department stores and restaurants. In most cases the customer pays a charge of 1½ percent per month on the unpaid balance, or an annual interest rate of about 18 percent.

It is usually not desirable to obtain large amounts of credit from merchants and dealers. As they are interested mainly in selling the goods they handle, they may encourage overbuying and overindebtedness. Often you will get a substantial discount for paying cash, and you may save enough in this way to justify borrowing the cash from a bank or production credit association.

Sales finance companies

The credit you get from a dealer for the purchase of an automobile or farm equipment is often in the form of an installment loan. Usually, these loan funds are provided by a finance company. Here again, credit is relatively easy to obtain. But the cost in fees and interest charges is usually higher than the cost of borrowing from specialized farm lenders. Get full information on costs and terms and compare them with those of other available lenders.

COST OF CREDIT

The cost of credit depends on several factors—the borrower's farming ability

and his credit reputation, the kind and amount of credit he wants, and where he gets the credit.

If you have a reputation for paying your debts promptly, you should be able to get lowest cost loans from such farm lenders as life insurance companies, Federal land banks, commercial banks, and production credit associations. Also, relatives and friends may sometimes lend at low rates.

Personal finance companies and small loan companies must charge higher rates because they specialize in relatively small loans that are expensive to make and service. Also, many of their borrowers have low incomes, are heavily in debt, or for other reasons have difficulty getting credit elsewhere.

Installment loans made by consumer loan departments of banks may also have high interest charges for the same reasons.

The cost of credit from merchants and dealers varies but is often higher than from regular farm lenders. This increased cost is a result of charges for the extra bookkeeping required in servicing credit accounts.

In general, a lender or creditor must charge enough to cover his expenses of making, servicing, and collecting loans; his possible losses if borrowers fail to repay; and his profit.

Loan expenses

The number and kind of expenses for one loan may differ greatly from those for another. If you have not yet established a credit rating, the lender may go to more expense in investigating you. If he thinks you may have trouble in repaying, he will charge more to cover his servicing and collecting expense. If you repay in monthly installments, his bookkeeping expense is greater than if you make your payments only once or twice a year. To provide for these higher costs, lenders usually charge a higher interest rate.

The lender's costs for negotiating and servicing loans do not increase in proportion to the size of the loan. It costs him little more to make a loan of $1,000 or $5,000 than it does to make one of $100. Therefore, if you borrow a small amount, expect to pay a higher interest rate or higher service charge than if you borrow a large amount.

The length of time for which the loan is made may affect the lender's costs and the interest rate he must charge. It may cost him as much to make a 6-month loan as it does for a 12-month loan. And if a lender has the expense each year of making and collecting annual loans, he must charge a higher interest rate than when he makes loans for periods of 5 years or more.

Lenders also have the expense of getting funds with which to make loans. Some lenders get their funds at little cost directly from individuals in the form of deposits or insurance premiums, or at "wholesale" rates from such big investment centers as New York City. Other lenders borrow their funds at higher cost from banks or from manufacturers, distributors, or finance companies.

Loss expenses

Lenders lose money occasionally in foreclosures or other unforeseen difficulties. To protect themselves against these loss expenses, lenders charge higher interest rates when they believe they are taking a more-than-average chance of losing money.

Higher rates of interest may be charged—

- When the borrower's farm income is uncertain or low.
- When the borrower is forced to borrow money on a second mortgage.
- When the borrower has not made payments promptly in the past.
- When the borrower is heavily indebted.

Lender profits

The profits that different types of lenders expect on their loans vary. Farm credit cooperatives, for example, operate for the benefit of their borrowers. Other lending institutions are expected to earn satisfactory returns for their stockholding investors.

Loan fees

In addition to interest, lenders frequently charge certain fees. On a long-term loan for which the lender is given a mortgage on the farm as security, usually there is a fee for investigating the borrower and appraising the property. Also, you as the borrower will probably be expected to pay such costs as recording the mortgage and the lawyer's fees for searching the title and closing the loan. On short-term loans, you may be charged an inspection fee and a fee for recording a chattel mortgage. On a small loan, a minimum fee may be charged.

Other costs

Some of the costs of borrowing money or using credit are hidden or overlooked. For instance, if you buy a secondhand car on credit from a dealer, usually there is a "package" finance charge that includes various kinds of insurance, towing, and bail bond coverage, as well as the actual charge for credit. The amount of the package finance charge varies; unfortunately, it is sometimes excessive.

Another hidden cost of using sales credit is the difference between the "buy now, pay later" price and the cash price of an article. Feed, fertilizer, food, clothing, and appliances can often be bought cheaper for cash than on credit. Even small discounts for paying cash can add up to substantial sums over a long period.

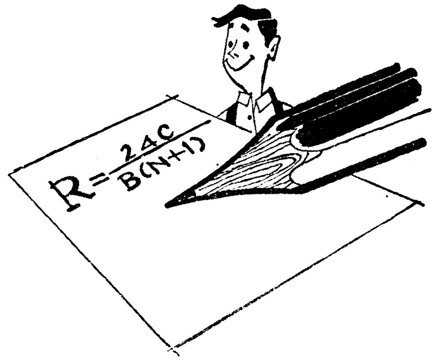
Therefore, in shopping for credit, compare any dollar charges or costs of various lenders as well as their interest rates.

Truth in Lending Law

The Truth in Lending Law that went into effect in 1969 requires lenders and those selling goods and services on credit to state clearly to their customers exactly what the financing charges, including interest charges, will be on credit transactions. The charges must be stated as an annual percentage rate. All real estate or farm mortgage loans and all other loans not exceeding $25,000 are covered by the law.

FIGURING THE COST OF CREDIT

Although lenders and creditors must tell you the annual interest rate when-



ever you get credit from them it is important, nevertheless, to know how to figure the rate of interest so as to be able to compare the cost of credit from different sources. A good understanding of the different methods of figuring costs and rates can save you hundreds of dollars over a period of years.

Simple interest method

This is the method frequently used by regular lenders such as commercial banks, insurance companies, Federal land banks, and production credit associations. They usually quote the interest rate as a certain percentage of the money the borrower uses for a full year. (If the borrower repays the loan in less than a year, or if he does not use the full loan for the entire year, the amount of interest due will be adjusted accordingly.)

On a long-term loan of $10,000 from a life insurance company at 7-percent interest, you would pay $700 interest ($10,000×0.07), at the end of the first year. If at the same time you repaid $1,000 of the loan itself, your debt would be reduced to $9,000. You would pay 7 percent of this $9,000, or $630, at the end of the second year as interest on the loan. In this way, the interest you owe continues to be figured on the unpaid balance of the loan until loan and interest are all paid.

If you borrow $1,000 from a production credit association at 7-percent interest to be repaid in a lump sum at the end of 6 months, you will pay $35 interest. If you borrow the $1,000 to be repaid in a lump sum in 12 months, you will pay $70 interest.

However, if you get a 7-percent PCA loan of $1,000 and repay it in 1 year in equal monthly installments, you will pay about $35 interest (7 percent of $500). By repaying the loan in installments you will actually have the use of only half the money for the year.

Monthly rate method

Small loan companies (sometimes called consumer or personal finance companies) often charge interest on the basis of monthly rates on unpaid balances. A monthly rate of 2 percent, for example, would be roughly 24 percent on a yearly basis. Find out to what period of time the quoted rate refers.

Discount method

When the discount method is used, the lender deducts the interest from the loan. Suppose you borrowed $500 at a discount rate of 7 percent, to be repaid in a lump sum at the end of a year. You receive $465 and pay interest of $35 (7 percent of $500) in advance. To find the true interest rate (about 7½ percent), divide the interest cost ($35) by the amount that you have the use of ($465).

Use this simple formula to figure the annual interest rate you pay when you make a purchase on a monthly installment plan:

$$R=\frac{24C}{B(N+1)}$$

R=Annual interest rate
C=Interest and finance cost
B=Amount of credit received
N=Number of monthly payments

Example: An appliance priced at $300 can be bought on a monthly installment plan for $50 down and 5 monthly payments of $52 each. Since the total payment—figured by adding the 5 monthly payments ($260) to the $50 down payment—is $310, the interest cost—cash price subtracted from the total payment—is then $10. Substituting $10 for C, and 5 for N:

$$R=\frac{24\times 10}{B(5+1)} \quad \text{or:} \quad R=\frac{240}{B\times 6}$$

The amount of credit received (the $50 down payment subtracted from the $300 cash price) would be $250. Substituting $250 for B:

$$R=\frac{240}{250\times 6} \quad \text{or:} \quad R=\frac{240}{1500}$$

The annual interest rate would therefore be 240 divided by 1500, or 0.16—that is, 16 percent.

The same formula may be used to find the interest rate when you borrow money on a monthly repayment plan:

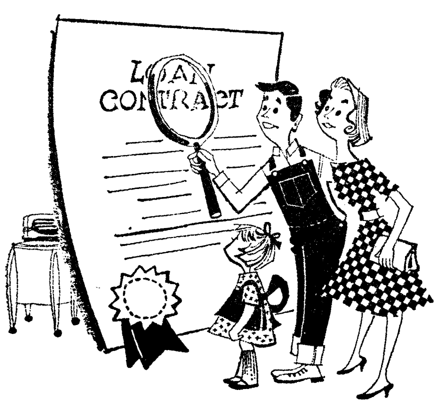
Suppose you borrow $600 from a finance company to buy a used car. The loan is repaid in 10 monthly installments of $65 each. The total repaid is $650, of which $50 is the interest and finance cost. C would be $50, B would be $600, and N would be 10. Interest rate would be 0.18, or 18 percent.

Installment method

An automobile or household appliance can be bought on the installment plan from a sales finance company, a dealer, or the consumer loan department of a bank.

Suppose you borrow $500 from one of these lenders, at a quoted interest rate of 7 percent, to be repaid in 12 equal monthly installments. The interest is added to the $500, making a total of $535 you are to repay. You receive $500; but because you pay it back monthly, the amount you are able to use for the full year is about half of $500. Using the formula on the opposite page, you find that you are paying a true interest rate of about 13 percent.

If you were able to get a regular 7-percent loan from a production credit association or the farm department of a commercial bank, and used the loan money to pay cash for the automobile or household appliance, the interest charge would be about half that on the installment loan—a saving of about $17.50.



USING CONSUMER CREDIT

Advantages

- It lets you buy things you want or need if you do not have the ready cash.
- It helps you to time your expenditures better and to take advantage of such opportunities as bargain prices.
- It allows you to keep available money for use in the farm business or for an emergency reserve.
- It may prevent disturbing permanent investments for temporary needs for cash.
- It may help you get things that you cannot save for. If your income seems to slip away with little to show for it, you may need the discipline of regular payments.

Disadvantages

- You risk being unable to make payments and having the lender repossess the item you are buying.
- If you have overcommitted yourself in installment payments, you may find it difficult to meet payments on other debts.
- You may be encouraged to use installment credit without fully checking your needs and your repayment ability.
- You usually pay more by using consumer credit than by paying cash.

Guides for using consumer credit

● The wise use of credit begins with wise expenditures. When you consider a purchase or other expenditure, try to evaluate its necessity or benefit. Is it an emergency? Is it a luxury? Is it important to conserve your available cash for something else? Are the benefits of buying the item sufficiently important for you to get it immediately? What would you lose by waiting until you can pay cash?

● Estimate your future earnings to make sure you can handle the payments. Credit is not a substitute for income. Your future income must be large enough to pay the interest and other credit costs. Be wary of monthly installments if your income is irregular or uncertain.

● Know the terms and conditions of credit. Do not borrow solely on the basis of the monthly payment. Find out the total debt and how long you must pay. Have the total debt itemized to show the cost of the items you are buying, and the amount of interest, fees, insurance, and other charges. Figure the true interest rate and compare with rates of other lenders. If you buy an item on time, ask for both the cash price and the time-payment price.

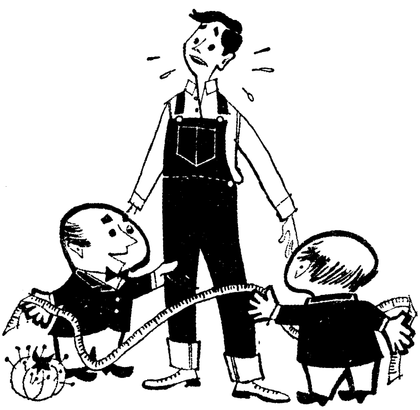
● Plan to repay your loan faster than the value of the item bought depreciates in value. Don't be paying for a "dead horse."

● Use credit from the best single source. If you are already borrowing for farm purposes from your local bank or production credit association, find out whether it will lend you money for consumer purposes.

● Before you use consumer credit, talk it over with your family. Using credit for personal spending could affect family relationships.

● Keep your credit rating good. If it is not possible to make payments on time, acquaint the lender with your situation as soon as possible.

YOUR ABILITY TO GET CREDIT



Your ability to get credit usually depends on your financial situation, on how well the lender knows you, and on whether he is favorably impressed by you.

Farm people begin to make an impression on lenders and creditors as youths on the home farm, as hired workers, and as starting tenants.

How reliable and industrious are you as a worker? Have you shown good judgment in farming? Are you careful in your spending, and are you noted for paying your bills?

A good credit rating is a reputation that will follow and serve you throughout your lifetime; establish it early.

When you decide that you need or want a loan, plan your application before you call on the lender. He will want to know how much you hope to borrow, what you plan to use the money for, what you expect your income to be, and how and when you will repay the loan. If you are a new applicant for credit, he will ask you about your farming experience, your farming operations, the size of your farm, and your future plans. He will want also a list of your assets and debts and information about your earnings and expenses.

Sometimes the lender or creditor can give you an immediate answer to your request for a loan. But if it is your first loan or you want a large amount, he will probably investigate both you and your farm. He will check for any bills, loans, mortgages, and other liens you have outstanding. Therefore, be honest in describing your net worth, debt, and income situation.

Don't wait until the last minute to apply for a loan. Plan ahead and avoid any disruption in your farming operations that might result from a delay in getting loan funds. Getting a long-term loan secured by a mortgage on a farm may take several months. The investigation and appraisal must be thorough, and considerable legal work is involved in checking the title records and closing the loan.

If you have been refused a loan, stop and analyze your situation. Perhaps you need more farming experience. It may be that you are asking for too big a loan, or your farming plans may not be worked out carefully enough. Ask the lender why you do not qualify. His advice is based on practical experience, and it will be valuable to you.

WHEN YOU BECOME A BORROWER

The promissory note, mortgage, or other papers you sign when you are granted a loan usually explain in legal language just what is expected of you. Always read and understand the terms of any such papers that you sign. Ask the lender to explain any terms or conditions that are not clear to you. This will prevent any misunderstanding in your future relations with him. Be sure no blank spaces are left in the contract.

Requirements for repayment

When you talk with the lender about the loan, you will agree on the amount of each payment and when payments

are to be made. The terms will be specified in the note. Plan ahead for these payments as you do for your other expenditures.

Occasionally, despite the best intentions and efforts, farmers are not able to make a payment on time. Low prices, drought, and other emergencies can upset the most carefully laid plans. If, through no fault of your own, you find yourself unable to make a loan payment that is due, don't be unduly embarrassed. As soon as you know that you will not be able to pay on time, talk with your lender. Show him what your income is and what your necessary expenses—taxes, family living, and farm-operating expenses—are. Be prepared to tell him when and how much you can pay. If your plan has been carefully thought out and if you are sincere in your desire to pay, the lender is likely to give you an extension of time.

The lender may let a scheduled principal payment be made later if you can pay the interest that is due. If your scheduled payments will be too large for you to manage for the next several years, he may agree to reduce the payments by spreading them over a longer time. Or, he may make you an additional loan to permit you to consolidate other bills and debts that may be pressing.

How a lender treats you when you become delinquent on a loan depends partly on his past experience with you. You will be more likely to receive good treatment if you have been operating your farm to the best of your ability and have kept the land and buildings in reasonably good condition. Also, the lender will be more willing to work along with you if he knows that you are paying taxes and other debts and have been careful in your spending.

Sometimes a farm operator cannot earn enough to provide a living for his family and to pay taxes and meet the payments on his debt. His farm may be too small or unproductive, or his debts may be too large.

If you find yourself in such a situation, appraise your problems frankly. Talk with your banker or other responsible lenders, and with your county agricultural agent. If there is no hope of being able to pay your debts by farming, it is best to know it early and to consider the alternatives that may be open to you. You might get a part-time job. Or you might sell the farm, pay your debts, and move to another farm or to town.

Other loan requirements

If you have mortgaged your real estate or your personal property as security, you will be expected to maintain it in reasonably good condition.

If you have a chattel mortgage on machinery, crops, or livestock, you will need to get permission before you sell or otherwise dispose of any of them. There is usually an understanding between borrower and lender that livestock and machinery inventories will be maintained in both numbers and value, or that the net proceeds of any security sold will be paid on the loan. If you have given a chattel mortgage, find out from the lender just what he expects from you in maintaining the property.

Payment of property taxes and insurance is required as part of the farm-mortgage agreement. Buildings and fences must be kept in reasonably good

repair and soil erosion damage prevented. If part of the security—such as timber or gravel—is sold, a permit is required from the lender. Similarly, if part of the farm is sold as a building lot or for highway purposes, it must be released from the mortgage by the mortgage holder. He may specify that some of the proceeds of any such sale shall be paid on the loan.

Once you borrow money and sign a note, you are legally liable for payment, even though the mortgaged property is sold and the loan personally assumed by someone else. If, later, the lender forecloses and loses money, he can look to you to make up the loss. Sell your farm to someone you believe will do his best to keep it up and to meet the mortgage payments, or have him obtain his own financing so that you can repay your mortgage debt.

Prepayment of loan

If you have extra cash, you may question whether to reduce a loan or repay it ahead of time. If you have several loans, it may be a question of which should be reduced first.

Reducing your debt, particularly if it is large, may free you from worry. Also, the lower interest cost on a smaller debt may save substantial amounts. However, before making a prepayment on your loan consider these points:

- Would you benefit more by expanding or improving your farm business? Don't prepay a loan with money that you may soon need for an expenditure or investment.
- Would it be advantageous to have more available cash to operate with? If so, consider putting it in a savings account or in United States savings bonds.
- Would keeping a big mortgage loan on your farm make it easier to sell?
- Will a penalty be charged you for prepayment of your mortgage loan?

The amount that you may prepay in any one year may be limited.

- Making extra payments on your mortgage loan ordinarily does not reduce the amount of your future installments or let you skip any. Extra payments only shorten the life of your loan.

If you decide to make extra payments, it will usually be to your benefit to pay first on your short-term and high interest-rate loans. If you prepay part of your farm-mortgage loan, ask the lender whether this would permit you to skip some future installments if you should run into difficulty.

If your debts are too large, reduce them before you make any risky investments.

U.S. GOVERNMENT PRINTING OFFICE: 1971